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INTERSTATE COMMERCE COMMISSION

EQUIPMENT LEASE AGREEMENT

between

AMERICAN FLETCHER LEASING CORPORATION

and

THE PITTSBURGH AND LAKE ERIE RAILROAD COMPANY

dated as of

September 15, 1975

EQUIPMENT LEASE AGREEMENT

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EQUIPMENT LEASE AGREEMENT, dated as of September 15, 1975, between American Fletcher Leasing Corporation, an Illinois corporation (hereinafter referred to as "Lessor"), and The Pittsburgh and Lake Erie Railroad Company, a Delaware corporation (hereinafter referred to as "Lessee")

Lessee has purchased the items of equipment specified in Schedule A hereto (hereinafter individually referred to as a "Unit" and collectively referred to as the "Units" or "Equipment") from Greenville Steel Car Company (hereinafter referred to as "Greenville") pursuant to certain letter agreements dated September 11, 1973 and October 9, 1973 and, pursuant to the terms of a certain Agreement dated as of May 22, 1975. Lessee desires Lessor first, to purchase the Equipment from Lessee and thereafter for Lessor to lease the same to Lessee, subject to the terms and conditions of this Agreement. Lessor and Lessee have entered into a certain Agreement to Purchase and Lease dated as of the date hereof (hereinafter referred to as the "Purchase Agreement") providing for the commitments of the Lessor for the Original Cost (as set forth therein) of, and the conditions precedent thereto as to the purchase thereby of, the Equipment (other than any unit which shall have suffered an Event of Loss, as defined in Section 3.5.2 hereof, on or prior to the Date of Purchase (as defined in the Purchase Agreement) of the Equipment by Lessor.

NOW, THEREFORE, in consideration of the mutual covenants and undertakings herein contained, Lessor and Lessee hereby agree as follows:

I. LEASE OF EQUIPMENT

1.1 Lease. Subject to the terms and conditions of this Agreement, Lessor hereby agrees to lease to Lessee, and Lessee hereby agrees to lease from Lessor, the Equipment. Notwithstanding the possession and use of the Units by Lessee, Lessor shall and does hereby retain the full legal title to and property in the same, it being expressly understood that this Agreement is an agreement of lease only.

1.2 Term of Lease. The term of lease for each Unit shall commence on the Date of Purchase (as defined in the Purchase Agreement) thereof and, unless sooner terminated as provided herein, shall terminate thirteen and one half (13.5) years following said Date of Purchase. This Agreement may not be terminated by Lessor except as expressly provided herein and may not be terminated or cancelled by Lessee for any reason whatsoever, unless otherwise expressly provided herein. If such term of lease is extended the phrase "term of lease", as used in this Agreement, shall be deemed to include the extended term.

1.3 Rental Payments.

1.3.1 Base Quarterly Rent. Lessee covenants and agrees to pay to Lessor, on the Date of Purchase (as defined in

the Purchase Agreement) of a Unit, and on the last day of each calendar quarter (September 30, December 31, March 31 and June 30) thereafter during the period commencing on said Date of Purchase for such Unit, and ending thirteen and one half (13.5) years following said Date of Purchase for such Unit, a quarterly rental payment (hereinafter referred to as "Rental Payment" or in the aggregate as "Rental Payments"), in advance, for such Unit in an amount equal to 3.493% of the Original Cost (as set forth in Schedule A hereto and hereinafter defined) of such Unit to Lessor, provided, however, that in the event the term of lease of any Unit shall commence on a day other than the last day of a calendar quarter (other than September 30, December 31, March 31 and June 30), the first and last of the Rental Payments payable with respect thereto shall be prorated on a daily basis. The phrase "Original Cost", as used in this Agreement as to a Unit or Units, as the case may be, shall be deemed to mean the full purchase price of a Unit or Units, as the case may be, as paid by Lessor in accordance with the Purchase Agreement.

1.3.2 Late Payment. In the event that any Rental Payment or other payment or obligation hereunder shall not be made promptly when due, Lessee shall pay to Lessor upon written demand by Lessor, as additional rental, interest on such overdue payment, from the due date of such payment to the date of payment thereof, at the rate of fourteen per cent (14%) per

annum, or the maximum legal rate of interest permitted by applicable law, whichever is lower.

1.3.3 Place of Payment. All rental and other payments required to be made by Lessee to Lessor hereunder shall be made in immediately available funds to Lessor at 100 South Wacker Drive, Chicago, Illinois 60606 or at such other place as Lessor may designate in writing to Lessee.

II. REPRESENTATIONS AND WARRANTIES

2.1 Lessor's Warranties; Disclaimers.

2.1.1 Warranties. Lessor hereby represents and warrants to Lessee that (i) Lessor is a corporation duly organized, validly existing and in good standing under the laws of the State of Illinois; (ii) on the Date of Purchase (as defined in the Purchase Agreement) Lessor has received whatever title to the Equipment was conveyed to it by Lessee; (iii) Lessor is duly authorized by all requisite corporate action to lease the Equipment to Lessee in accordance with the terms of this Agreement, subject to Section 2.1.1 (ii); and (iv) this Agreement has been duly authorized, executed and delivered by Lessor and constitutes the legal, valid and binding obligation of Lessor in accordance with its terms.

2.1.2 Disclaimers. The warranties set forth in subsection 2.1.1 hereof are exclusive and in lieu of all other warranties of Lessor whether written, oral or implied; and Les-

sor shall not, by virtue of having purchased, and leased the Equipment to, Lessee under this Agreement, or having received any bill or bills of sale pursuant to this Agreement or the Purchase Agreement, be deemed to have made any representation, warranty or covenant with respect to the title, merchantability, fitness, condition, quality, durability or suitability of any Unit in any respect or in connection with or for the purposes and uses of Lessee, AND LESSOR HEREBY DISCLAIMS ANY OTHER REPRESENTATION OR WARRANTY OF ANY NATURE, EITHER EXPRESS OR IMPLIED, AS TO ANY MATTER WHATSOEVER, INCLUDING, WITHOUT LIMITATION, (i) LESSOR'S TITLE TO THE EQUIPMENT, (ii) THE DESIGN OR CONDITION OF THE EQUIPMENT, (iii) ITS MERCHANTABILITY OR ITS FITNESS FOR ANY PARTICULAR PURPOSE, (iv) THE QUALITY OF THE MATERIAL OR WORKMANSHIP OF THE EQUIPMENT, OR (v) CONFORMITY OF THE EQUIPMENT TO THE PROVISIONS AND SPECIFICATIONS OF ANY PURCHASE ORDERS RELATING THERETO, IT BEING UNDERSTOOD THAT LESSEE ACCEPTS THE EQUIPMENT FOR THE PURPOSES HEREOF "AS IS"; it being agreed, however, that Lessor authorizes Lessee to assert for Lessor's account, during the term of lease, all of Lessor's rights under any manufacturer's warranty on the Equipment, or any warranty of title, at Lessee's expense, but Lessee shall indemnify and hold harmless Lessor from and against any and all claims, and all costs, expenses, damages, losses and liabilities incurred or suffered by Lessor in connection therewith, as a result of, or incident to any action by Lessee pursuant to the above authorization.

2.2 Lessee's Warranties. Lessee hereby represents and warrants to Lessor as follows:

2.2.1 Organization, Corporate Power, etc. Lessee (i) is a corporation duly organized, validly existing and in good standing under the laws of the state of its incorporation, (ii) is qualified to do business in every jurisdiction in which such qualification is necessary and (iii) has the corporate power and authority to own its properties and to carry on its business as now being conducted and to execute and perform this Agreement.

2.2.2 Corporate Existence of Subsidiaries. The Mahoning State Line Railroad Company, Montour Railroad Company, The Lake Erie and Eastern Railroad Company and Pittsburgh, Chartiers & Youghiogheny Railway Company are corporations in which Lessee owns at least a 50% interest (collectively "Subsidiaries") and Subsidiaries are duly qualified to do business in all states wherein their ownership of property or the nature of their business requires such qualifications and have obtained from all government bodies and/or regulatory agencies having jurisdiction over their activities such permission or authorization as is necessary to properly conduct their business.

2.2.3 Validity of Lease. The execution, delivery and performance by Lessee of this Agreement have been duly authorized by all requisite corporate action and will not violate any provision of law, any order of any court or other agency of government, the Certificate or Articles of Incorporation or By-Laws of Lessee

and/or Subsidiaries, or any indenture, mortgage, agreement or other instrument to which they are a party, or by which they or any of their property is bound, or result in a breach of or constitute (with due notice and/or lapse of time) a default under any such indenture, mortgage, agreement or other instrument, or result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever upon any of their property or assets; and this Agreement constitutes the legal, valid and binding obligation of Lessee enforceable in accordance with its terms.

2.2.4 Financial Statements. Lessee has previously delivered to Lessor its annual stockholders' report for the year ended December 31, 1974 which contains certain audited financial statements, the Railroad Annual Report R-1 for the period ended December 31, 1974 and its balance sheet and income statement for the interim period ending June 30, 1975 as submitted to the Interstate Commerce Commission. All such financial statements, balance sheets, statements of profit and loss and financial data (i) are complete and correct in all material respects, (ii) accurately present the financial condition of Lessee as of the dates, and the results of its operations for the periods, for which the same have been furnished, and (iii) have been prepared in accordance with generally accepted accounting principles consistently followed throughout the periods covered thereby (except as noted therein); all balance sheets disclose all known liabilities, direct and contingent, as of their respective dates; and there

has been no change in the condition of Lessee, financial or otherwise, since the date of the balance sheet and income statements for the interim period ending June 30, 1975, as submitted to the Interstate Commerce Commission other than changes in the ordinary course of business, none of which changes has been materially adverse.

2.2.5 Other Information. To the best of Lessee's knowledge and belief, all other written information, reports, papers and data given to Lessor with respect to Lessee are accurate and correct in all material respects and complete insofar as completeness may be necessary to give Lessor a true and accurate knowledge of the subject matter.

2.2.6 Other Agreements. Lessee or its Subsidiaries are not a party to any agreement or instrument materially and adversely affecting their present or proposed business, properties or assets, operation or conditions, financial or otherwise; and Lessee and/or Subsidiaries are not materially in default in the performance, observance or fulfillment of any obligations, covenants or conditions set forth in any agreement or instrument to which they are a party.

2.2.7 Indebtedness. Lessee and/or Subsidiaries are not in default in the payment of the principal of or interest on any indebtedness for borrowed money or in default under any instrument or agreement under and subject to which any indebtedness for borrowed money has been issued; no event has occurred and is continu-

ing under the provisions of any such instrument or agreement which with the lapse of time or the giving of notice, or both, would constitute an event of default thereunder.

2.2.8 Taxes. Lessee and Subsidiaries have filed all Federal, State, county and municipal tax returns required to have been filed by them and have paid all taxes which have become due pursuant to such returns or pursuant to any assessment received by them (except taxes which Lessee and/or Subsidiaries are contesting in good faith and as to which adequate reserves have been provided), and Lessee does not know of any basis for additional assessment in respect of such taxes.

2.2.9 Litigation. There is not now pending against or affecting Lessee or Subsidiaries, nor to Lessee's knowledge is there threatened, any action, suit or proceeding at law or in equity or by or before any administrative agency, or governmental body which if adversely determined would materially impair or affect its or Subsidiaries' financial condition or operations except as disclosed in the December 31, 1974, financial statement of Lessee certified by Price Waterhouse & Co., certified public accountants, or otherwise disclosed in writing to Lessor, or adversely affect its ability to perform its obligations under this Agreement.

2.2.10 Title to Equipment. Upon execution and delivery of the Lessee's Bill of Sale (as set forth in the Purchase Agreement), sole ownership of the Equipment will have been conveyed to

Lessor, free and clear of all liens, mortgages, security interests, encumbrances of any kind, or property rights of others; prior to the Date of Purchase (as defined in the Purchase Agreement), this Agreement shall have been filed and recorded in accordance with Section 20c of the Interstate Commerce Act, and no other filing, recording or deposit of any document is necessary or advisable to establish and perfect the interests of Lessor in and to the Equipment and this Agreement as against all third parties, except for deposit of this Agreement with the Registrar General of Canada pursuant to Section 86(1) of the Railway Act of Canada (and notice of such deposit to be given in the "Canada Gazette" pursuant to Section 86(2) thereof).

III. COVENANTS OF LESSEE

3.1 Payment of Rent and Other Monies. Lessee's obligation to promptly pay Lessor each and every Rental Payment and other payments payable by it under this Agreement shall be unconditional and absolute and shall not be affected by any circumstance, including, without limitation (i) any setoff, counterclaim, recoupment or other defense for any reason whatsoever, (ii) any defect in the title, condition, design, operation, or fitness for use of, or any damage to or loss or destruction of, the Units, or any interruption, cessation, prohibition or restriction in the use or possession thereof by Lessee for any reason whatsoever, (iii) any insolvency, bankruptcy, reorganization or similar proceed-

ings by or against Lessee, or (iv) any other circumstance, happening or event whatsoever, whether or not similar to any of the foregoing. If for any reason whatsoever this Agreement shall be terminated in whole or in part by operation of law or otherwise except as specifically provided herein, Lessee nonetheless agrees to pay to Lessor an amount equal to each Rental Payment at the time such payment would have become due and payable in accordance with the terms hereof had this Agreement not been terminated in whole or in part. Lessee hereby waives, to the extent permitted by applicable law, any and all rights which it may now have or which at any time hereafter may be conferred upon it, by statute or otherwise, to terminate, cancel, quit or surrender this Agreement except in accordance with the express terms hereof. Each Rental Payment made by Lessee to Lessor shall be final as to Lessor and Lessee. Lessee will not seek to recover all or any part of any Rental Payment from Lessor for any reason whatsoever.

3.2 Use of Equipment. Lessee shall, at its own cost and expense, use, maintain and operate the Equipment (i) in a careful and proper manner, (ii) solely in the conduct of its business, or in the business of any subsidiary, or Subsidiaries of Lessee to the extent permitted under the provisions of Section 3.9 hereof, (iii) in a manner and for the use contemplated by the manufacturer thereof including without limitation, in such manner and use so as not to impair the applicability of Greenville's warranties and (iv) in compliance with (A) all laws, rules and regulations of every governmental authority having jurisdiction over the

Equipment, including without limitation, the interchange rules of the United States Department of Transportation and the Interstate Commerce Commission and, (B) the provisions of all policies of insurance carried by Lessee pursuant to Section 3.6 hereof. In no event shall Lessee utilize the Equipment in such a way so as to subject the same and/or this Agreement to the terms and provisions of the Renegotiation Act of 1951 (50 U.S.C. §1211-1233) as may be amended from time to time. Except for alterations or changes required by a governmental authority having jurisdiction over the Equipment, Lessee shall not, without the prior written consent of Lessor, affix or install any part, accessory or device on any Unit if the same will impair the originally intended function or use of such Unit. Lessee shall pay all costs, expenses, fees and charges incurred in connection with the use and operation of the Equipment. Lessee shall not remove any Unit from the continental United States and Canada without Lessor's prior written consent.

3.3 Maintenance. Lessee shall, at its own cost and expense, maintain, service and repair the Equipment so as to keep it in as good operating condition, order, repair and appearance as it was when it first became subject to this Agreement, ordinary wear and tear excepted; and at all times during the term of lease hereof the Equipment shall be suitable for use in interchange. Lessee shall, at its own cost and expense and within a reasonable period of time replace all parts of any Unit that may become worn out, lost, destroyed or otherwise rendered permanently unfit for use

with appropriate replacement parts, free and clear from any mortgage, lien, charge or encumbrance (and title thereto shall vest in Lessor immediately upon installation, attachment or incorporation of the same in, on or into such Unit).

3.4 Taxes. In addition to the Rental Payments and other amounts payable by Lessee under this Agreement, Lessee shall pay promptly all taxes, assessments, license fees and governmental charges, municipal, state, Federal and foreign (hereinafter referred to as "Imposts"):

(a) levied or assessed against Lessee (i) in respect of this Agreement or the purchase orders or sales contracts issued in connection with the purchase of the Equipment from Greenville and/or from Lessee, (ii) upon the interest of the Lessee in the Equipment, (iii) upon the use or operation thereof, or (iv) upon the earnings of Lessee arising therefrom; or

(b) levied or assessed against Lessor (i) on account of the purchase, lease, ownership, possession, maintenance, use, delivery, operation, or return of the Equipment, (ii) on account of or measured by the use or operation thereof, or (iii) on account of or measured by the earnings, rentals (including Rental Payments) or gross receipts arising therefrom, excluding, however, any net income taxes payable by Lessor to the United States or any state or political subdivision thereof (except any such tax which is in substitution for, or relieves Lessee from the payment of, any tax or other charge for which Lessee would otherwise be obligated to pay as provided herein), but including any excise,

franchise (imposed only as a result of the business, transactions or facts directly related to this Agreement and excluding any franchise taxes imposed by the State of Illinois or any political subdivision thereof), sales, use or similar tax imposed on Lessor, on account of the use or sale (except a sale pursuant to subsection 4.3.2 of this Agreement) of the Equipment by, to or for the account of Lessee hereunder, provided, however, that Lessee shall not be required to pay any such Impost if and so long as it shall in good faith, with due diligence and by appropriate legal or administrative proceedings, contest the validity, applicability or amount thereof, so long as such proceedings or the nonpayment of such Impost does not, in the written opinion of Lessor, involve (A) any danger of the sale, forfeiture or loss of any Unit or any interest therein, (B) any material adverse change in the title, property or rights of Lessor in or to the Units or hereunder, (C) any assessment or penalty against Lessor, (D) any interference with the due payment by Lessee of rentals hereunder or (E) any danger of criminal or other liability for which no indemnification is provided hereunder being imposed against Lessor. If the claim is made against Lessor for any Impost payable by Lessee hereunder, Lessor shall promptly notify Lessee, and if Lessor pays the same, Lessee will promptly reimburse Lessor therefor. If any Impost payable by Lessee hereunder is, by law, to be assessed or billed to Lessor, Lessee shall, at its expense, do any and all things required to be done by Lessor in connection with the levy, assessment, billing or payment thereof;

and Lessor hereby authorizes Lessee to act for and on behalf of Lessor in connection therewith but Lessee shall indemnify and hold harmless Lessor from and against any and all claims and all costs, expenses, damages, losses and liabilities incurred or suffered by Lessor in connection therewith, as a result of, or incident to, any action by Lessee pursuant to the above authorization. Lessee shall cause all billing of Imposts levied against Lessor to be made to it in care of Lessee, and shall, from time to time, on request of Lessor, submit written evidence of the payment of such Imposts.

In the event any reports with respect to any Impost are required to be made, Lessee will either make such reports in such manner as to show Lessor's ownership of the Units or notify Lessor of any requirement and make such reports in such manner as shall be satisfactory to Lessor.

3.5 Loss of Equipment.

3.5.1 Risk of Loss. Lessee shall bear the risk of any Unit being lost, destroyed or otherwise rendered permanently unfit or unavailable for use, (hereinafter called an "Event of Loss") on or after the Date of Purchase (as defined in the Purchase Agreement) thereof. For the purposes of this Agreement, a Unit shall be deemed to have been otherwise rendered permanently unfit or unavailable for use, without limiting the general meaning of such phrase, if any such Unit shall have been (i) confiscated, condemned or taken by any governmental body, de facto or de jure, by exercise of the power of eminent domain or otherwise, (ii)

damaged to such an extent rendering repair impracticable or uneconomic or (iii) stolen or misappropriated and not recovered by Lessee within sixty (60) days after discovery or notice thereof.

3.5.2 Event of Loss. If an Event of Loss shall occur with respect to any Unit, Lessee shall promptly notify Lessor thereof and shall pay to Lessor on or before the tenth (10th) day after the first to occur of:

(i) the date on which the 60-day period following the occurrence of such an Event of Loss shall have expired, and

(ii) the date on which there shall be made any payment of any proceeds of insurance or of any condemnation, confiscation or other taking in respect thereof, or the date on which any underwriter of insurance on the Equipment shall advise Lessor or Lessee that it disclaims liability in respect of such Event of Loss if it disclaims liability,

an amount equal to the Stipulated Loss Value of such Unit determined as of the date of payment by Lessee in accordance with Schedule B hereto (to the extent the same has not theretofore been paid to Lessor as the proceeds of insurance or of any condemnation, confiscation or other taking in respect thereof).

In such an event, Lessee shall continue to pay the Rental Payment applicable to such Unit until the date on which

Lessor receives payment in full of the Stipulated Loss Value of such Unit, as provided in this subsection 3.5.2, whereupon Lessee's obligations to pay the same shall terminate except with respect to the Rental Payments accrued (on a daily basis) and unpaid at the date of such termination.

3.5.3 Disposition of Insurance and Other Proceeds.

The proceeds of insurance or of any confiscation, condemnation or other taking in respect of a Unit as to which an Event of Loss has occurred shall be paid to and retained by Lessor. The proceeds of insurance in respect to damage to a Unit, the repair of which is practicable shall be paid to Lessor and, unless an Event of Default hereunder has occurred and is continuing, shall be applied either to such repair or to the reimbursement of Lessee for the cost of such repair, at the election of Lessee, after such repair has been made and such Unit has been restored to good operating condition.

3.6 Insurance.

3.6.1 Coverage. Lessee will carry, at Lessee's cost and at no cost to Lessor, with insurers of recognized responsibility comprehensive public liability and property damage insurance in respect of the operation and use of the Equipment, in an amount not less than \$35,000,000.00 for each occurrence, which insurance may contain a \$2,000,000.00 deductible provision for any one occurrence.

3.6.2 Policy Provisions. Lessee shall cause each insurance policy issued pursuant to the requirements of subsection 3.6.1 hereof to provide, and the insurer issuing such policy to certify to Lessor, that (i) Lessor, as owner and Lessor of the Equipment, is an additional insured thereunder, (ii) all provisions of such policy, except the limits of liability, will operate in the same manner as if there were a separate policy covering each insured and (iii) if such policy be cancelled or materially changed for any reason whatsoever such insurer will promptly notify Lessor and such cancellation or change will not be effective for thirty (30) days after notice to Lessor.

3.6.3 Delivery of Policies and Receipts for Premiums. Lessee shall deliver to Lessor copies of each such insurance policy (or a certificate of insurance relating thereto) upon or prior to the execution hereof and copies of each renewal policy (or a certificate or other evidence of insurance relating thereto) prior to the expiration of the original policy or preceding renewal policy, as the case may be (provided, however, that Lessee shall notify Lessor in writing of the status of such insurance thirty (30) days prior to the expiration thereof in the event it has not then delivered to Lessor a renewal policy, or a certificate or other evidence of insurance relating thereto), and Lessee shall deliver to Lessor receipts or other evidence that the premiums thereon have been paid if reasonably requested by Lessor.

3.7 Indemnity. Lessee agrees to indemnify and hold harmless Lessor from and against any and all liabilities, obligations, expenses, claims (including claims for negligence or strict liability in tort), losses, costs, disbursements (including legal fees and expenses), actions, suits, judgments, penalties, damages, of whatsoever kind and nature (hereinafter referred to individually as "Indemnity" and collectively as "Indemnities") imposed on, incurred by or asserted against Lessor or any successors or assigns thereof, in any way relating to or arising out of this Agreement or arising out of any of the letters, other agreements or instruments executed in connection herewith, including, but not limited to:

(i) the manufacture, purchase, delivery, non-delivery, acceptance or rejection, ownership, management, lease, control, possession, use, operation, maintenance, repair, replacement, storage, condition (whether defects are latent or discoverable by Lessor or Lessee), sale, return or other disposition, of the Equipment, or any part thereof,

(ii) the use in or about the construction or operation of the Equipment of any design, article, or material which infringes or is claimed to infringe on any patent, trademark, copyright or other right, or

(iii) the failure of Lessee to observe and conform to the statutes, ordinances or other regulations or requirements of any governmental authority applicable or relating to the Equipment,

except for any Indemnities arising out of the gross negligence or willful misconduct of Lessor.

The covenant of indemnity contained in this Section 3.7 shall continue in full force and effect notwithstanding the full payment of all amounts due hereunder or the termination of this Agreement in any manner whatsoever.

The Lessee's obligations under the Indemnities provided for in this Agreement shall be those of a primary obligor regardless of whether the Lessor shall also be indemnified with respect to the same matter under the terms of any other document or instrument, and the Lessor may proceed directly against the Lessee without first seeking to enforce any other right of indemnification. Upon the payment in full by the Lessee of any Indemnity provided for under this Agreement, the Lessee shall be subrogated to any right of the Lessor in respect of the matter as to which such Indemnity was paid.

3.8 Inspection. Lessee shall permit any person designated by Lessor, at Lessor's expense and at its option, to visit and inspect the Equipment, or any part thereof, and any records pertaining to the use and maintenance thereof, at such reasonable times and places and as often as Lessor may reasonably request.

3.9 Possession; Assignment; Pledge. Lessee shall not, without the prior written consent of Lessor:

(a) sublease, hire out or otherwise transfer or part with the possession, control or custody of the Equipment,

or any part thereof, except that Lessee may, without the prior written consent of Lessor, permit use of the Equipment by another railroad in the ordinary course of Lessee's business through interchange agreements;

(b) assign this Agreement or its interests hereunder;

or

(c) create, incur or suffer to exist any mortgage, pledge, lien, security interest, encumbrance or charge on, or adverse claim with respect to, the Equipment, or any part thereof, or its interest therein, by, through or under Lessee.

3.10 Identification. Lessee shall, at its own cost and expense, cause each Unit to be legibly marked in a reasonably prominent location on each side thereof, in letters not less than one inch in height, the words "Owned by American Fletcher Leasing Corporation, and leased to The Pittsburgh and Lake Erie Railroad Company under Lease filed pursuant to Section 20c of the Interstate Commerce Act". Lessee shall not remove or deface, or permit to be removed or defaced, any such marking or the identifying manufacturer's serial number, or the Lessee's car numbers (which car numbers are more fully set forth in Schedule A hereto) with respect to such Unit, and, in the event of any such removal or defacement, Lessee shall promptly cause such marking, serial number or car number to be replaced. Lessee shall not allow the name of any person, association or corporation to be placed on any Unit in any manner that might be interpreted as a claim of ownership; provided, however, that Lessee may cause the Equipment to be

lettered with the names or initials or other insignia customarily used by Lessee on equipment used by it of the same or a similar type as the Equipment for convenience of identification of its rights to use the Equipment as permitted under this Agreement.

3.11 Equipment to be Personal Property. It is expressly understood that all the Equipment shall be and remain personal property notwithstanding the manner in which the same may be attached or affixed to realty, and Lessee shall do all acts and enter into all agreements necessary to insure that the Equipment remains personal property.

3.12 Financial and Other Statements.

3.12.1 Financial Statements. Lessee shall furnish to Lessor so long as this Agreement shall continue in effect:

(a) as soon as available, and in any event within 120 days after the end of each fiscal year of Lessee, copies of the Form 10-K Annual Report of Lessee to the Securities and Exchange Commission for such fiscal year and copies of Form R-1 filed with the Interstate Commerce Commission, (or any other comparable report substituted therefor which includes certified financial information);

(b) as soon as available, and in any event within 45 days after the end of each of the first three quarterly periods in each fiscal year of Lessee, copies of the Form 10-Q Quarterly Report of Lessee to the Securities and Exchange Commission for such quarterly period (or any other comparable report substituted therefor);

(c) Deleted.

(d) within sixty (60) days after the end of the first half of each of its fiscal years, its balance sheet as of the end of such half, in the same detail as heretofore furnished to Lessor and certified by the principal financial officer of Lessee as having been prepared in accordance with accounting principles consistent with those reflected in its audited financial statements and as to the truth, accuracy and completeness of the information contained therein;

(e) within one hundred twenty (120) days after the end of each of its fiscal years, a complete conformed copy of an executed report of an examination of its financial affairs made by recognized and reputable certified public accountants, such report to include a balance sheet and a statement of profit and loss for such year in the same detail as hereintofores furnished to Lessor and an unqualified opinion to the effect that such balance sheet and statement of profit and loss fairly represent the financial condition of Lessee and the results of its operations in conformance with generally accepted accounting principles applied on a consistent basis, except as may be described in such opinion; and

(f) with reasonable promptness, such other financial data as may from time to time be reasonably requested by Lessor.

Any financial statement furnished pursuant to this Section 3.12.1 may be a consolidated statement (i.e., consolidate the financial information with respect to Lessee with that of its consolidated subsidiaries, if any).

IV. DEFAULT AND REMEDIES

4.1 Events of Default. The occurrence of any of the following shall constitute an Event of Default hereunder:

4.1.1 Default in Payment. Lessee shall fail to pay all or any part of a Rental Payment or other payment hereunder when and as the same shall become due and payable, and shall continue to fail to do so for a period of five (5) Business Days thereafter.

4.1.2 Breach of Warranty. Any representation or warranty made in this Agreement, or in any report, certificate, financial statement or other statement furnished pursuant to the provisions of this Agreement, shall prove to have been false or misleading in any material respect as of the date on which the same was made.

4.1.3 Breach of Covenant. Lessee shall fail to duly observe or perform any covenant, condition or agreement made by it hereunder or under any other agreement between Lessor and Lessee, and shall continue to fail to observe or perform the same for a period of thirty (30) days after written notice thereof by Lessor to Lessee.

4.1.4 Judgment. A Judgment for the payment of monies in excess of \$250,000 shall be rendered against Lessee and shall remain undischarged for a period of thirty (30) days during which period execution shall not be effectively stayed.

4.1.5 Attachment. An attachment or other lien against the property of Lessee for an amount in excess of \$250,000 shall be issued or entered and shall remain undischarged or unbonded for thirty (30) days.

4.1.6 Bankruptcy, Receivership, Insolvency, etc. Lessee shall commit an act of bankruptcy within the meaning of the Federal Bankruptcy Act, as the same may be amended from time to time; or bankruptcy, receivership, insolvency, reorganization, dissolution, liquidation or other similar proceedings shall be instituted by or against Lessee or all or any part of its property under the Federal Bankruptcy Act or other law of the United States or of any state or other competent jurisdiction, and, if against Lessee, it shall consent thereto or shall fail to cause the same to be discharged within thirty (30) days.

4.1.7 Default Under Agreements For Indebtedness. Default shall occur in respect of any evidence of indebtedness of Lessee or under any agreement under which any evidence of indebtedness of Lessee may be issued, or under any other material agreement or any material lease of real or personal property or under any covenant, provision or condition contained in the charter, articles of incorporation or similar instrument of Lessee, and

such default shall continue for more than the period of grace, if any, therein specified or 30 days, whichever is less.

4.1.8 Default Under Other Lease Agreements. An Event of Default shall occur and be continuing under either the (i) Equipment Lease Agreement dated as of September 15, 1975 between Lessee and Wells Fargo Transport Leasing Corporation; or (ii) Equipment Lease Agreement dated as of September 15, 1975 between Lessee and Pittsburgh National Bank.

4.2 Remedies. If an Event of Default hereunder shall occur and be continuing, Lessor may exercise any one or more of the following remedies:

4.2.1 Termination of Agreement. Terminate this Agreement and Lessee's rights hereunder.

4.2.2 Specific Performance or Damages. Proceed, by appropriate court action or actions either at law or in equity, to enforce performance by Lessee of the applicable covenants of this Agreement or to recover damages for the breach thereof, including net after-tax losses of federal and state income tax benefits to which Lessor would otherwise be entitled as a result of owning the Units and leasing the same to Lessee under this Agreement.

4.2.3 Repossession. Subject always to any mandatory requirements of applicable law then in effect:

(a) personally, or by agents or attorneys, retake possession of the Equipment, or any Unit, from Lessee

(and any items in or on the Equipment at the time of repossession, wherever such items may be, which items shall be held in storage for Lessee, at Lessee's expense, without liability on the part of Lessor), with or without notice or hearing or other process of law, without liability to return to Lessee any Rental Payment or other payments theretofore made and free from all claims made by Lessee, and for that purpose Lessor may enter upon Lessee's premises where any of the Equipment is located, remove the same without liability for suit, action or proceeding by Lessee and, use in connection with such removal any and all services, supplies, aids and other facilities of Lessee; or

(b) retake possession of the Equipment, or any Unit thereof, without liability to return to Lessee any Rental Payment or other payments theretofore made and free from all claims by Lessee, by directing Lessee in writing to assemble the Equipment and deliver the same to Lessor, at its option, at either Pittsburgh, Pennsylvania or Chicago, Illinois, in which event Lessee shall at its own expense forthwith cause the same to be moved to the place so designated and there delivered to Lessor; it being understood (i) that Lessee's obligations so to deliver the Equipment are of the essence of this Agreement and that, accordingly, upon application to a court of equity having jurisdiction, Lessor shall be entitled to a decree requiring specific performance by Lessee of such obligations; and (ii) that Lessor may, without charge, pending further action

by Lessor as hereinafter in this Article IV provided, keep any of the Equipment repossessed by Lessor pursuant to this clause on the premises of Lessee; provided, however, that if the storage of the Equipment thereon materially interferes with the efficient operation of such premises the Equipment shall be removed to and stored (at the expense of Lessee) at any other location mutually agreed upon by Lessor and Lessee.

4.2.4 Other. Exercise any other remedy specifically granted hereunder or now or hereafter existing in equity or at law, by virtue of statute or otherwise.

4.3 Disposition of Equipment. In the event Lessor repossesses the Equipment, Lessor thereafter may (a) lease the Equipment, or any portion thereof, in such manner, for such time and upon such terms as Lessor may determine, or (b) sell the Equipment, or any portion thereof, at one or more public or private sales, in such manner at such time or times and upon such terms as Lessor may determine.

4.3.1 Lease. In the event that Lessor shall enter into a lease or leases of any Units, the rentals received by Lessor in connection therewith for the Remaining Lease Terms (as such term is hereinafter defined) respectively applicable to such Units shall be applied to the payment of (i) any and all expenses and fees (including reasonable attorneys' fees) incurred by Lessor in retaking possession of, and removing, storing and leasing such Units, (ii) the costs and expenses incurred by Lessor in re-

pairing the same, (iii) the Rental Payments then remaining unpaid under this Agreement, and (iv) any and all other sums then owing to Lessor by Lessee hereunder. The remaining balance of such rentals, if any, and the rentals received by Lessor under any lease of any such Unit for the period commencing after the expiration of the Remaining Lease Term applicable to such Unit, shall be retained by Lessor. Lessee shall remain liable to Lessor to the extent that the aggregate amount of the sums referred to in clauses (i) through (iv) above shall exceed the aggregate rentals received by Lessor under such leases for the respective Remaining Lease Terms applicable to the Units covered by such leases. The Remaining Lease Term with respect to any Unit shall mean the period ending on the date on which the term of lease of such Unit under this Agreement would have terminated if an Event of Default hereunder had not occurred.

4.3.2 Sale. In the event that Lessor shall sell or otherwise dispose of (other than pursuant to a lease) any Unit, the proceeds shall be applied to the payment of (i) any and all expenses and fees (including reasonable attorneys' fees) incurred by Lessor in retaking possession of, and removing, storing and selling or otherwise disposing of such Unit, (ii) the costs and expenses incurred by Lessor in repairing the same, (iii) the Rental Payments accrued under this Agreement but unpaid up to the time of such sale or other disposition, (iv) any and all other sums (other than Rental Payments) then owing to Lessor

by Lessee hereunder and (v) the Stipulated Loss Value of the Equipment determined as of the date of such sale or other disposition in accordance with Schedule B attached hereto. The remaining balance of such proceeds, if any, shall be retained by Lessor. Lessee shall remain liable to Lessor to the extent that the aggregate amount of the sums referred to in clauses (i) through (v) above shall exceed the aggregate proceeds received by Lessor in connection with the sale or disposition of the Equipment.

V. RENEWAL OPTION; RETURN OF EQUIPMENT

5.1 Renewal Option. So long as no Event of Default (or event which would constitute an Event of Default but for the lapse of time or the giving of notice or both) shall have occurred and be continuing, by written notice specifying the Base Quarterly Rent being offered and, delivered to Lessor not less than one hundred eighty (180) days prior to the expiration of the term of lease, Lessee may extend the term of lease hereof beyond the first 13.5 years as set forth in Section 1.2 hereof, as to all of the Equipment, and nothing less than all of the Equipment, for as many consecutive three (3) year periods as Lessee shall specify in such written notice to Lessor, provided that in no event shall any such extension of the term of lease extend the same beyond the year 2005. For the purposes of clarifying Lessee's Renewal Option in this Section 5.1, it is hereby

understood that the phrase "term of lease" as used herein, and as defined in Section 1.2 hereof, will be deemed to mean the extended term or terms, if any, beyond the first 13.5 years hereof and therefore, Lessee shall be able to extend the term of lease, in accordance with this Section 5.1, for as many consecutive three (3) year periods as it shall specify at such time when it may elect to exercise this Renewal Option in accordance herewith. It is hereby agreed, however, that all of the terms and conditions set forth in this Agreement shall apply during any such extension of the original term of lease, except that the amount of the Base Quarterly Rent shall be equal to the then fair rental value of the Equipment. If in Lessor's reasonable opinion, the Base Quarterly Rent so specified in such written notice, does not equal the then fair rental value of the Equipment, then Lessor and Lessee shall have the fair rental value of the Equipment determined by an independent appraiser satisfactory to Lessee and Lessor (or, if Lessee and Lessor are unable to agree upon an appraiser, by a panel of three appraisers, one of whom shall be selected by Lessor, another of whom shall be selected by Lessee and the third of whom shall be selected by the other two, or by the American Arbitration Association, if such other two appraisers are unable to agree upon a third). Following such appraisal, Lessee shall, subject to the provisions of this Section 5.1, lease the Equipment for its fair rental value (as determined) as provided above. Lessee shall pay all of the cost of any appraisal made pursuant to this Section 5.1.

5.2 Return of Equipment. As soon as practicable on or after the expiration of the term of lease, other than pursuant to Article IV hereof, Lessee will, at its own cost and expense, at the request of Lessor, deliver the Units to Lessor upon such storage tracks of Lessee as Lessor may reasonably designate, or, in the absence of such designation, as Lessee may select, and store the Units on such tracks for a period not exceeding 120 days and cause the same to be delivered, at any time within such 120-day period, to any reasonable place on Lessee's tracks directed by Lessor. The Units shall be returned in the condition in which they are required to be maintained by Lessee under Section 3.3 hereof, shall be maintained by Lessee, at its own cost and expense, in such condition during the period of storage provided for in this Section 5.2, shall be insured at its own cost and expense in accordance with Section 3.6 hereof; and at the time of such return and during such period of storage shall be kept free and clear of all liens, charges, security interests and encumbrances in accordance with Section 3.9 hereof. The movement and storage of the Units shall be at the expense and risk of Lessee. During any such storage period, Lessor or any person designated by it, including the authorized representative or representatives of any prospective purchaser or lessee of the Units, may inspect the same; provided, however, that Lessee shall not be liable, except in the case of negligence of Lessee or of its employees or agents, for any injury to, or the death of, any person exercising, either on behalf of Lessor or any prospective purchaser, the right

of inspection granted under this sentence. The assembling, delivery, storage, maintenance and transporting of the Units as in this Section 5.2 provided are of the essence of this Lease, and, upon application to any court of equity having jurisdiction in the premises, Lessor shall be entitled to a decree against Lessee requiring specific performance of the same.

VI. MISCELLANEOUS

6.1 Recording. Lessee, at its own expense, will cause this Agreement and any amendments or supplements hereto, and any assignments hereof, to be filed and recorded in accordance with Section 20c of the Interstate Commerce Act, and this Agreement to be deposited with the Registrar General of Canada in accordance with Section 86(1) of the Railway Act of Canada (and notice of such deposit to be given in the "Canada Gazette" pursuant to Section 86(2) thereof). Lessee will from time to time do and perform any other act and will execute, acknowledge, deliver, file, register, deposit and record (and will re-file, re-register, re-deposit or re-record whenever required) any and all further instruments, including Uniform Commercial Code financing and continuation statements, required by law or reasonably requested by Lessor for the purpose of proper protection, to its satisfaction, of Lessor's interests in the Units, or for the purpose of carrying out the intention of and its rights under this Agreement; and Lessee will promptly furnish to Lessor evidence of all such filing, registering, depositing and recording and an opinion of counsel for Lessee with

respect thereto satisfactory to Lessor. This Agreement shall be filed and recorded with the Interstate Commerce Commission prior to the Date of Purchase (as defined in the Purchase Agreement).

6.2 Performance of Lessee's Obligations. If Lessee shall fail to make payment or perform any act required by this Agreement, Lessor may, but shall not be obligated to, make such payment or perform such act for the account of and at the expense of Lessee, without notice to or demand upon Lessee and without waiving or releasing any obligation or default. Lessee shall indemnify and hold harmless Lessor from and against all losses and expenses (including, but not limited to, attorneys' fees) suffered or incurred by Lessor by reason of any acts performed by it pursuant to this Section 6.2; and Lessee shall pay to Lessor, upon demand, all sums expended by Lessor pursuant to this Section 6.2 or with respect to which it shall be entitled to be indemnified, plus interest thereon, at the rate of fourteen per cent (14%) per annum, from the date on which such sums are expended by Lessor to the date on which Lessee pays the same to Lessor.

6.3 Further Assurances. Lessee agrees that at any time and from time to time, after the execution and delivery of this Agreement, it shall, upon request of Lessor, execute and deliver such further documents and do such further acts and things as Lessor may reasonably request in order fully to effect the purposes of this Agreement, including but not limited to, any and all information necessary to enable Lessor to properly com-

plete and file tax returns for any and all states or political subdivisions thereof.

6.4 Federal Income Taxes. In entering into this Agreement and the transactions contemplated thereby, it is the intention of Lessor and Lessee that such transactions will result in the following federal income tax consequences:

- (a) this Lease constitutes a lease;
- (b) Lessor is lessor and Lessee is lessee under this Agreement;
- (c) in computing its taxable income, Lessor is entitled to depreciate the full Original Cost of the Units in accordance with the provisions of Section 167(m) of the Internal Revenue Code of 1954 for an asset depreciation period of 12 years using initially the 150% declining balance method with a change, not requiring the consent of the Commissioner of the Internal Revenue, to the straight line method when most beneficial to the Lessor thereafter (hereinafter referred to as the "Tax Benefits").

Lessee agrees that, as between Lessor and Lessee, Lessor, as the owner of the Units, shall be entitled to the Tax Benefits. Lessee agrees that neither it nor any corporation controlled by it, in control of it or under common control with it, directly or indirectly, will at any time take any action or file any returns or other documents inconsistent with the foregoing and that each of such corporations will file such returns, take such action and execute such documents as may be reasonable and necessary to facilitate accomplishment of the intent expressed in this Section 6.4. Les-

see agrees to keep and make available for inspection and copying by Lessor such records as will enable Lessor to determine whether it is entitled to the Tax Benefits and the amounts thereof.

Lessee hereby represents to Lessor that the Units, upon the Date of Purchase, shall be "rolling stock of a domestic railroad corporation subject to Part I of the Interstate Commerce Act".

Lessee further agrees that by not later than the Date of Purchase (as defined in the Purchase Agreement), an officer of Lessee shall deliver an opinion satisfactory in form and substance to Lessor that the Units will have a useful life of at least 20 years and a value of at least 20% of Original Cost thereof at the end of the original term of lease of 13.5 years.

If for any reason (except solely as a direct result of the occurrence of any "Excluded Event" set forth below) in any taxable year or years any one or more of the Tax Benefits shall be denied, disallowed or otherwise prohibited, or recaptured, in whole or in part, to Lessor with respect to all or part of any Unit, then Lessee shall pay to Lessor on each of the dates provided in this Lease for the payment of a Rental Payment hereunder, such sums (taking into account all taxes required to be paid by Lessor on the payment of such sums under the laws of the United States of America or any political subdivision thereof, calculated on the assumption that the federal, state and local taxes of Lessor computed by reference to net income or excess profits are based on the then effective federal tax rate for corporations and the highest effective state and local income tax and/or excess profit tax

rates generally applicable to Lessor [giving effect to any applicable surtax and/or any tax or charge relating thereto], including penalties and interest, but after deducting from any such then effective federal tax rate for corporations of the amount of any such state and local taxes) in addition to the Rental Payments then due, as shall be necessary, in the reasonable opinion of Lessor, to cause the total after-tax cash and the discounted after-tax rate of return (to be based on a 48% effective federal tax rate and the highest effective state and local income tax and/or excess profit tax rates generally applicable to Lessor [such rates as so calculated are hereinafter called the "Assumed Rates"]) of Lessor under this Lease to be equal to the total after-tax cash and the discounted after-tax rate of return (taxes being calculated at the Assumed Rates) that would have been available to Lessor under this Lease, if the Tax Benefits had been allowed in full; provided, however, that Lessee shall not be required to make the payment of such sums to the extent (and only to the extent) that the Tax Benefits shall have been denied, disallowed or otherwise prohibited, or recaptured, in whole or in part, to or from Lessor with respect to all or part of such Unit solely as a direct result of the occurrence of any of the following events (hereinafter called "Excluded Events"):

(i) an Event of Loss with respect to such Unit, if Lessee shall have paid to Lessor the amounts stipulated pursuant to Section 3.5.2;

(ii) a voluntary transfer by Lessor of legal title to such Unit, the disposition by Lessor of any interest in such Unit or

the reduction by Lessor of its interest in the Rental Payments from such Unit under this Agreement unless, in each case, an Event of Default shall have occurred and be continuing;

(iii) the failure of Lessor to claim the Tax Benefits, as applicable, in its federal income tax return for the appropriate year, unless the failure to claim any of such deductions is based on an opinion of its independent tax counsel or independent certified public accountants that such deduction may not reasonably be claimed, or the failure of Lessor to follow proper procedure in claiming any of such deductions (but for this purpose any procedure approved in writing by Lessee or not objected to in writing by Lessee within 30 days after written notice from Lessor shall in any event be deemed a proper procedure); or

(iv) the failure of Lessor to have sufficient income to benefit from the Tax Benefits, as applicable.

In the event that this Agreement is terminated with respect to any Unit prior to the time Lessee is obligated to make payments to Lessor pursuant to this Section 6.4, then Lessee shall pay to Lessor on the next December 31, March 31, June 30 or September 30 following the date on which the event giving rise to indemnification arises, such lump sum (calculated in the same manner as set forth in the preceding sentence) as shall be necessary, in the reasonable opinion of Lessor, to cause the total after-tax cash and the discounted after-tax rate of return (taxes being calculated at the Assumed Rates) of Lessor in respect of such Unit to be equal to

the total after-tax cash and the discounted after-tax rate of return (taxes being calculated at the Assumed Rates) that would have been available to Lessor under this Agreement if the Tax Benefits had been allowed in full.

In the event a claim shall be made by the Internal Revenue Service that a Tax Benefit should be denied or disallowed, or recaptured, Lessor agrees to take such action in connection with contesting such claim as Lessee shall reasonably request from time to time, including administrative appeals, proceedings, hearings and conferences with the Internal Revenue Service in respect of such claim, and proceedings in the appropriate United States District Court, United States Court of Claims or the United States Tax Court, including such appeals as are allowable from each such proceeding. Lessor shall select, in its sole discretion, the forum for contesting the denial of the Tax Benefits, considering, however, in good faith such request as Lessee shall make concerning the manner of contesting the denial, including the most appropriate forum in which to proceed; provided that;

(a) within 30 days after notice by Lessor to Lessee of such claim, Lessee shall make request that such claim be contested;

(b) prior to taking such action, Lessee shall have furnished Lessor with an opinion of Lessee's tax counsel to the effect that a meritorious ground exists for resisting such claim and describing such ground; and

(c) Lessee shall have indemnified Lessor in a manner satisfactory to it for any liability or loss which it may incur as the

result of contesting such claim and shall have agreed to pay Lessor on demand all costs and expenses which Lessor may incur in connection with contesting such claim, including, without limitation, (i) reasonable attorneys' and accountants' fees and disbursements, (ii) the amount of any interest and penalties which may ultimately be payable to the United States Government as the result of contesting such claim and (iii) in the event Lessor shall pay the tax claimed and then seek a refund, interest at the rate of 14% per annum on the amount so expended for the period during which Lessor has so advanced such funds.

If any such claim referred to above shall be made by the Internal Revenue Service, and Lessee shall reasonably have requested Lessor to contest such claim as above provided and shall have duly complied with all of the terms of this Section 6.4, Lessee's liability under this Section 6.4 with respect to the denial or disallowance of such Tax Benefit shall become fixed upon final determination of Lessor's liability for the tax claimed, after giving effect to any refund obtained together with interest thereon. In the event Lessee does not request Lessor to contest such claim as provided in this Section 6.4, the liability of Lessee under this Section 6.4 shall become fixed to Lessor at the time Lessor makes payment of the tax attributable to the denial or disallowance of such Tax Benefit. In the event any such claim is contested, Lessor shall prosecute such contest diligently and in good faith and shall keep Lessee informed of the status thereof.

Notwithstanding any provision to the contrary in this Section 6.4, Lessor may elect not to contest any such claim and thereupon Lessee shall be relieved of all liability to indemnify Lessor with respect to the Tax Benefits involved in respect of such claim; and Lessor shall reimburse Lessee for all amounts, including interest at the rate of 14% per annum on all amounts paid by Lessee under this Section 6.4 in connection with such contesting.

In the event the Rental Payments shall be adjusted as in this Section 6.4 provided, the Stipulated Loss Values set forth in Schedule B for all purposes of this Agreement shall be adjusted accordingly. Any such adjustment in Stipulated Loss Values shall be effective retroactive to said Date of Purchase.

6.5 Rights, Remedies, Powers. Each and every right, remedy and power granted to Lessor hereunder shall not be exclusive but shall be cumulative and in addition to any other right, remedy or power herein specifically granted or now or hereafter existing in equity, at law, by virtue of statute or otherwise and may be exercised by Lessor from time to time concurrently or independently and as often and in such order as Lessor may deem expedient. Any failure or delay on the part of Lessor in exercising any such right, remedy or power, or abandonment or discontinuance of steps to enforce the same, shall not operate as a waiver thereof or affect Lessor's right thereafter to exercise the same, and any single or partial exercise of any such right, remedy or power shall not preclude any other

or further exercise thereof or the exercise of any other right, remedy or power. In the event Lessor shall have proceeded to enforce any such right, remedy or power and such proceeding shall have been determined adversely to Lessor, then in such event Lessee and Lessor shall be restored to their former positions and the rights, remedies and powers of Lessor shall continue as if no such proceeding has been taken.

6.6 Modification, Waiver, Consent. Any modification or waiver of any provision of this Agreement, or any consent to any departure by Lessee therefrom, shall not be effective in any event unless the same is in writing and signed by Lessor, and then such modification, waiver or consent shall be effective only in the specific instance and for the specific purpose given. Any notice to or demand on Lessee in any event not specifically required of Lessor hereunder shall not entitle Lessee to any other or further notice or demand in the same, similar or other circumstances unless specifically required hereunder.

6.7 Negative Covenants. So long as this Agreement is in effect, Lessee hereby covenants and agrees that it will not, without the prior written consent of Lessor:

(a) Make any material change in the business it presently conducts or purchase, redeem, retire or acquire, in the aggregate, more than 25% of the shares of its capital stock outstanding as of December 31, 1974 or purchase, redeem, retire or

acquire warrants, rights or other options to purchase such stock (except when solely in exchange for such stock) or alter, amend, modify or change its capital stock or the terms and conditions relating thereto in any manner which would adversely affect Lessee's ability to perform its obligations hereunder (provided, further, that after giving effect to the foregoing transaction Lessee's net worth (determined in accordance with the accounting rules, regulations and auditing principles promulgated by the Interstate Commerce Commission, consistently applied throughout the periods involved) shall not be less than \$160,000,000) or consolidate with or merge into any other person or entity or permit any other person or entity to consolidate with or merge into it, or engage in any form of corporate reorganization.

(b) Sell, lease or transfer any of its assets except in the normal course of business, or create, incur, assume or suffer to exist any mortgage, pledge, title retention or other lien or encumbrance of any kind upon, or any security interest in, more than sixty per cent (60%) of its property or assets, whether now owned or hereafter acquired, other than:

(i) Those required by this Agreement;

(ii) Deposits under workmen's compensation, unemployment insurance and social security laws or to secure the performance of bids, tenders, contracts (other than repayment of borrowed money), or leases (other than lease purchase obligations), or to secure indemnity, performance or other similar bonds in the ordinary course of business;

(iii) Liens imposed by law, such as carriers', warehousemen's or mechanics' liens, incurred in good faith in the ordinary course of business, and liens arising out of a judgment or award not exceeding \$250,000 with respect to which an appeal is being prosecuted, a stay of execution pending such appeal having been secured.

(c) Assume, guarantee, endorse, contingently agree to purchase, lend money, including loans to employees, extend credit or otherwise become liable, directly or indirectly, upon the obligation of any person, firm, joint venture or corporation, including without limitation the Trustees of the Penn Central Transportation Company, the Penn Central Transportation Company or any company affiliated therewith, except:

(i) transactions in the ordinary course of business;

(ii) loans or advances to or guarantees of the indebtedness of any subsidiary of Lessee, whether or not wholly owned, not to exceed in the aggregate \$10,000,000; and

(iii) obligations incurred in connection with the acquisition and interest in track and other railroad operating costs not to exceed in the aggregate \$20,000,000 (all such loans, advances, guarantees and obligations hereinafter referred to as "Permitted Advances").

Lessee hereby agrees, however, that it shall notify Lessor of any Permitted Advances in writing within thirty (30) days after the same are made or incurred.

(d) Declare or make or incur any liability to make any distribution or dividend in respect of its capital stock (other than distributions or dividends in such stock) except from Lessee's net income earned after December 31, 1974 (determined in accordance with the accounting rules, regulations and auditing principles promulgated by the Interstate Commerce Commission, consistently applied throughout the periods involved) and, provided further, that after giving effect to the payment of any such dividend or distribution Lessee's net worth (determined in accordance with the accounting rules, regulations and auditing principles promulgated by the Interstate Commerce Commission, consistently applied throughout the periods involved) shall not be less than \$160,000,000.

6.8 Communications. Any notice, request, demand, consent, approval or other communication provided or permitted hereunder shall be in writing and be given by personal delivery or sent by United States first class mail, postage prepaid, addressed as follows:

(a) if to Lessor: American Fletcher Leasing Corporation
100 South Wacker Drive
Chicago, Illinois 60606

Attention: General Counsel
Vice President-Operations

(b) if to Lessee: The Pittsburgh and Lake Erie Railroad
Company
P & LE Terminal Building
Pittsburgh, Pennsylvania 15219

Attention: Vice President and
General Counsel

provided, however, that either party may change its address for purposes of receipt of any such communication by giving ten (10) days' written notice of such changes to the other party in the manner above prescribed.

6.9 Section Headings, etc. Section headings are inserted for convenience only and shall not affect any construction or interpretation of this Agreement. All references herein to sections, paragraphs, clauses and other subdivisions refer to the corresponding sections, paragraphs, clauses and other subdivisions of this Agreement; and the words "herein", "hereof", "hereby", "hereunder", and words of similar import refer to this Agreement as a whole and not to any particular section, paragraph, clause or other subdivision hereof.

6.10 Governing Law. This Agreement shall be deemed to have been made under and shall be governed by, the laws of the Commonwealth of Pennsylvania in all respects, including matters of construction, validity and performance.

6.11 Severability. If any provision of this Agreement is prohibited by, or is unlawful or unenforceable under, any applicable law of any jurisdiction, such provision shall, as to such jurisdiction, be ineffective to the extent of such prohibition without invalidating the remaining provisions hereof; provided, however, that any such prohibition in any jurisdiction shall not invalidate such provision in any other jurisdiction; and provided further, that where the provisions of

any such applicable law may be waived, they hereby are waived by Lessee to the full extent permitted by law to the end that this Agreement shall be deemed to be a valid and binding agreement in accordance with its terms.

6.12 Assignment. Lessor, or any assignee of Lessor, may at any time, without notice to or consent by Lessee, sell, assign, transfer or mortgage or otherwise encumber its interest under this Agreement or in the Equipment, subject to the terms of this Agreement and the rights of Lessee hereunder, and upon receipt of written notice of any such assignment, Lessee shall recognize such assignment subject to the rights of Lessee against Lessor hereunder. No assignment or reassignment shall release Lessor from its obligations to Lessee under this Agreement. Lessor agrees to deliver to Lessee a copy of each agreement evidencing any such sale, assignment, transfer, mortgage or other encumbrance, or the portion thereof which effects compliance with the provisions of this Section 6.12, as soon as practicable after the execution and delivery thereof.

6.13 Use of Equipment Beyond Lease Term. If Lessor permits the use of any Unit beyond the term of lease with respect thereto, the obligations of Lessee hereunder shall continue;

provided, however, that such permissive use shall not be construed as a renewal of such term of lease nor as a waiver of any right or continuation of any obligation of Lessor hereunder, and Lessor may take possession of such Unit at any time upon demand.

6.14 Entire Agreement. This Agreement contains the entire agreement between Lessor and Lessee with respect to the subject matter hereof and supersedes and cancels any prior understandings and agreements between Lessor and Lessee with respect thereto.

6.15 Binding Effect. This Agreement, subject to the provisions of Section 3.9 hereof, shall be binding upon and shall inure to the benefit of the respective successors and assigns of Lessee and Lessor.

6.16 Counterparts. This Agreement may be executed in counterparts, and each such counterpart shall, for all purposes, constitute one agreement binding on the parties hereto, notwithstanding that both parties are not signatory in the same counterpart.

6.17 Survival. The representations, warranties, covenants, indemnities and agreements of the Lessee provided for in this Agreement, and the Lessee's obligations under any and all there-

of, shall survive the delivery of the Equipment and, the expiration or other termination of this Agreement.

IN WITNESS WHEREOF, Lessor and Lessee have executed this EQUIPMENT LEASE AGREEMENT.

AMERICAN FLETCHER LEASING CORPORATION
(Lessor)

Attest:

James C. Goss
Asst. Secretary

By *Marley M. Mathewson* V.P.

THE PITTSBURGH AND LAKE ERIE
RAILROAD COMPANY
(Lessee)

Attest:

Edward Brown
Assistant
Secretary

By *Henry G. Allgair*
President

COMMONWEALTH OF PENNSYLVANIA)
) SS
 COUNTY OF ALLEGHENY)

On this 15th day of September, 1975, before me personally appeared Harley M. Mathewson, to me personally known, who, being by me duly sworn, says that he is a Vice President of American Fletcher Leasing Corporation, and that the foregoing instrument was signed on behalf of said corporation by authority of its Articles of Incorporation and By-Laws, and he acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.

Agnes Kelemen
 Notary Public

(NOTARIAL SEAL)

AGNES KELEMEN, NOTARY PUBLIC
 PITTSBURGH, ALLEGHENY COUNTY
 MY COMMISSION EXPIRES MAR. 19, 1979
 My Commission Expires _____
 Member, Pennsylvania Association of Notaries

COMMONWEALTH OF PENNSYLVANIA)
) SS
 COUNTY OF ALLEGHENY)

On this 15th day of September, 1975, before me personally appeared H. E. Allen, Jr., to me personally known, who, being by me duly sworn, says that he is a ~~Vice~~ President of The Pittsburgh and Lake Erie Railroad Company that one of the seals affixed to the foregoing instrument is the corporate seal of said corporation and that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors, and he acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.

Agnes Kelemen
 Notary Public

(NOTARIAL SEAL)

AGNES KELEMEN, NOTARY PUBLIC
 PITTSBURGH, ALLEGHENY COUNTY
 MY COMMISSION EXPIRES MAR. 19, 1979
 My Commission Expires _____
 Member, Pennsylvania Association of Notaries

SCHEDULE A

to

Equipment Lease Agreement dated as of September 15, 1975

between

American Fletcher Leasing Corporation (Lessor)

and

The Pittsburgh and Lake Erie Railroad Company (Lessee)

DESCRIPTION OF EQUIPMENT

The Equipment covered by the Equipment Lease Agreement identified above is as follows:

<u>Quantity</u>	<u>Unit Description</u>	<u>Original Cost of Each Unit</u>	<u>Total Cost</u>
26	100 Ton 52'6" Fixed End Steel Floor Gondola Cars Serial Numbers P&LE 19948 - 19973 (both Numbers inclusive)	\$ 23,761.45	\$ 617,797.70
37	100 Ton 52'6" Fixed End Steel Floor Gondola Cars, Serial Numbers P&LE 46526 - 46562 (both Numbers inclusive)	\$ 24,780.00	\$ 916,860.00
Total			\$1,534,657.70

The aggregate Original Cost of the Units described and set forth herein is \$1,534,657.70.

SCHEDULE B
to
Equipment Lease Agreement dated as of September 15, 1975
between
American Fletcher Leasing Corporation (Lessor)
and
The Pittsburgh and Lake Erie Railroad Company (Lessee)

STIPULATED LOSS VALUES

The Stipulated Loss Value of a Unit of the Equipment covered by the Equipment Lease Agreement identified above, as of any date, shall be an amount equal to the product of (i) the Original Cost of such Unit (as specified in Schedule A) and (ii) the percentage indicated below opposite the period of time into which such date falls.

<u>PERIOD OF TERM OF LEASE</u>	<u>PERCENTAGE</u>	<u>PERIOD OF TERM OF LEASE</u>	<u>PERCENTAGE</u>
09/15/75 - 12/31/75	103.86	04/01/82 - 06/30/82	87.87
01/01/76 - 03/31/76	104.14	07/01/82 - 09/30/82	86.29
04/01/76 - 06/30/76	104.35	10/01/82 - 12/31/82	84.64
07/01/76 - 09/30/76	104.49	01/01/83 - 03/31/83	82.91
10/01/76 - 12/31/76	104.55	04/01/83 - 06/30/83	81.12
01/01/77 - 03/31/77	104.55	07/01/83 - 09/30/83	79.25
04/01/77 - 06/30/77	104.47	10/01/83 - 12/31/83	77.31
07/01/77 - 09/30/77	104.32	01/01/84 - 03/31/84	75.29
10/01/77 - 12/31/77	104.10	04/01/84 - 06/30/84	73.21
01/01/78 - 03/31/78	103.81	07/01/84 - 09/30/84	71.06
04/01/78 - 06/30/78	103.44	10/01/84 - 12/31/84	68.83
07/01/78 - 09/30/78	103.01	01/01/85 - 03/31/85	66.53
10/01/78 - 12/31/78	102.50	04/01/85 - 06/30/85	64.16
01/01/79 - 03/31/79	101.92	07/01/85 - 09/30/85	61.72
04/01/79 - 06/30/79	101.27	10/01/85 - 12/31/85	59.20
07/01/79 - 09/30/79	100.55	01/01/86 - 03/31/86	56.62
10/01/79 - 12/31/79	99.75	04/01/86 - 06/30/86	53.96
01/01/80 - 03/31/80	98.89	07/01/86 - 09/30/86	51.23
04/01/80 - 06/30/80	97.95	10/01/86 - 12/31/86	48.43
07/01/80 - 09/30/80	96.94	01/01/87 - 03/31/87	45.56
10/01/80 - 12/31/80	95.86	04/01/87 - 06/30/87	42.62
01/01/81 - 03/31/81	94.71	07/01/87 - 09/30/87	39.60
04/01/81 - 06/30/81	93.49	10/01/87 - 12/31/87	36.51
07/01/81 - 09/30/81	92.19	01/01/88 - 03/31/88	33.36
10/01/81 - 12/31/81	90.82	04/01/88 - 06/30/88	30.13
01/01/82 - 03/31/82	89.38	07/01/88 - 09/30/88	26.82
		10/01/88 - 12/31/88	23.45
		01/01/89 - 13.5 years after commencement of term of lease	20.00

After 13.5 years of the term of lease for such Unit, and until such time that such Unit has been surrendered to Lessor, as set forth in the Lease, the Stipulated Loss Value of such Unit shall be 20% of the Original Cost thereof.

In the event, however, Lessee elects to extend the term of lease hereof as provided in Section 5.1 of the Equipment Lease Agreement, the Stipulated Loss Values which shall apply during such extended term or terms of lease, if any, shall be mutually agreed upon by Lessor and Lessee, provided, however, that in no event shall such Stipulated Loss Values be in an amount less than 20% of the Original Cost of any such Unit during the first three (3) years of any such extended term of lease. In the event Lessor and Lessee are unable to agree upon such Stipulated Loss Values, the same shall be determined by arbitration in the manner set forth in Section 5.1 of the Equipment Lease Agreement.